

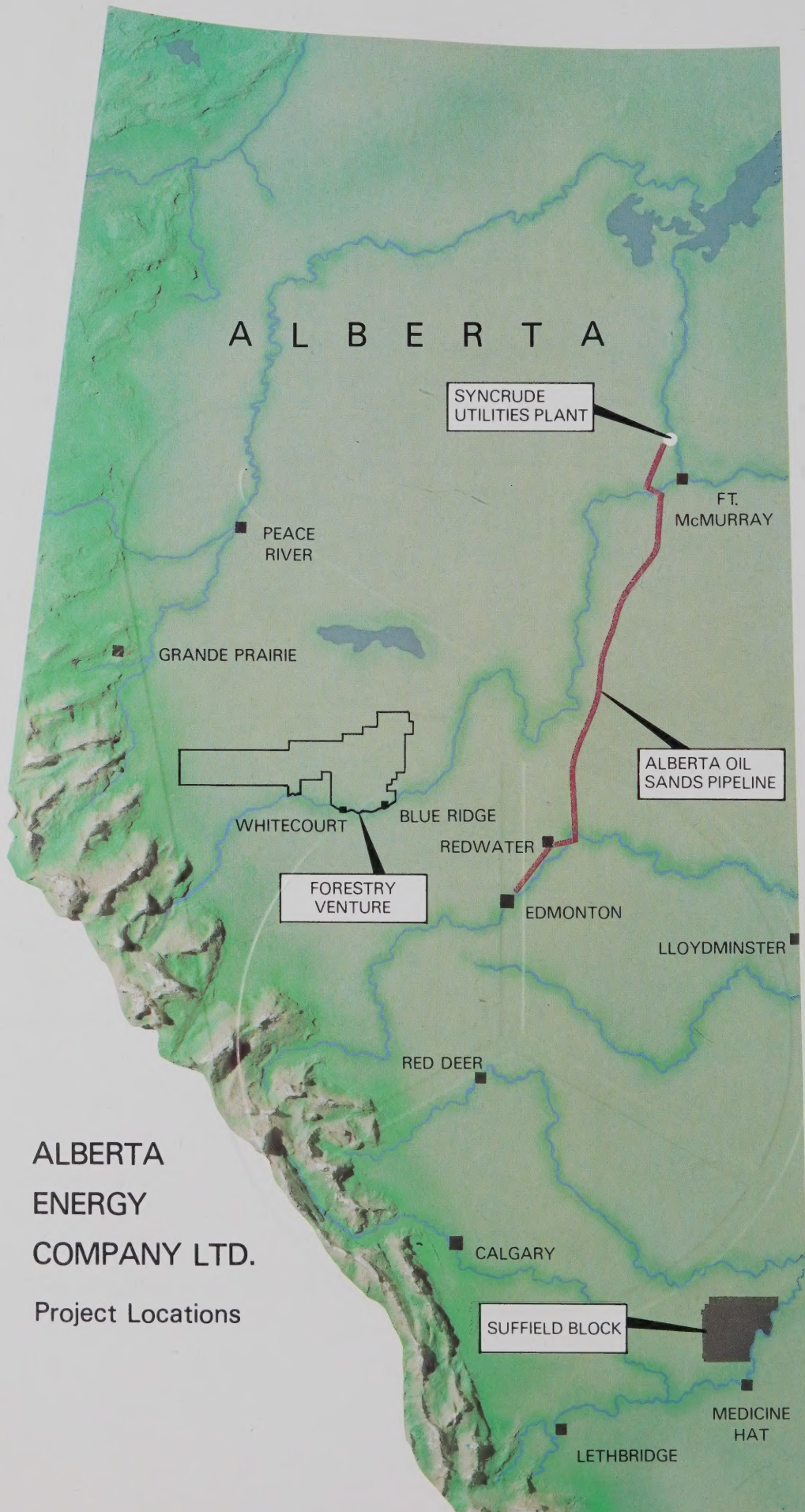
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Alberta Energy Company Ltd.

AN ALBERTA-BASED COMPANY
OWNED BY MORE THAN 50,000
CANADIAN SHAREHOLDERS



1976 Annual Report



ALBERTA
ENERGY
COMPANY LTD.
Project Locations

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Annual Meeting

The annual general meeting of shareholders of Alberta Energy Company Ltd. will be held at the Jubilee Auditorium in Calgary, Alberta, at 3:00 p.m. local time on April 5, 1977.

Copies of the Company's 1976 Annual Report may be obtained by contacting the office of the Secretary of the Company at Alberta Energy Company Ltd., #1000, 540 - 5th Avenue S.W., Calgary, Alberta, T2P 0M2.

AEC encourages those shareholders who receive more than one copy of the Annual Report to consolidate their holdings under the exact name in order to eliminate future duplications.



AEC projects depicted on the cover of the Annual Report are plant construction, drilling and reforestation.

Highlights

- Net income after taxes totalled \$8,460,000 or 56c per share. The Company was not fully taxable until late 1975, when it sold shares to the public and ceased to be a Crown Corporation. 1975 earnings of 52c per share would have been 29c per share had the Company been fully taxable in that year.
- Working capital at December 31, 1976, was \$68,377,000.
- Contracts were signed for the sale of 70 million cubic feet of gas per day, and in late 1976 the first revenue from Suffield was received.
- 216 wells were drilled at Suffield during the year. Drilling to date indicates that original reserve estimates will be exceeded.
- Exploratory drilling at Suffield, being conducted by an oil company under a farmout agreement with AEC, resulted in encouraging discoveries of gas and heavy oil.
- Negotiations were satisfactorily concluded for AEC's investment in the Syncrude utilities plant and the oil pipeline.
- Utilities plant construction was 56 % complete at year-end. Total cost of the plant is estimated at \$300 million.
- AEC Power successfully sold \$100 million of First Mortgage Bonds to Canadian public investors.
- Construction commenced on the \$80 million oil pipeline from Ft. McMurray to Edmonton.
- A 40% joint-venture interest was acquired in a large forestry project near Whitecourt, Alberta.
- Preparations continue for investment in the coal and petrochemical industries.
- AEC's capital investment program in 1977 is expected to be approximately \$200 million, of which \$89 million will be for AEC Power Ltd.
- A substantial increase in net income is expected in 1977.



President's Report to Shareholders

1976 was AEC's second year of full operation as a corporation. It was an exceptionally active year, with many favorable developments.

During 1976, the Company's first revenue from gas sales was received. Suffield shallow gas reserves were found to be larger than originally estimated and productivity was greater than expected. In addition, deeper drilling found encouraging amounts of gas and heavy oil.

Agreements were signed with the Syncrude participants for AEC's investment in the \$300 million utilities plant and the \$80 million oil pipeline. \$100 million of AEC Power Bonds were sold to the Canadian public.

In 1976, AEC acquired a 40% joint-venture interest in a forestry development. And, at year-end, negotiations were progressing favorably for the Company's initial participation in the coal industry.

At the end of these first two years of operation, which is a very short period of time for a corporation having the size and

scope of AEC, the Company has established a solid foundation for attainment of its objectives. Financial accomplishments for our shareholders are just beginning to become evident.

The notes "About the Company," which appear on the inside back cover of this Report, indicate the corporate philosophy of the Company. Particular emphasis should be given, however, to one fundamental object of this corporation — operating at a profit. This we fully intend to do.

Shares

In December, 1975, AEC sold 7,500,000 common shares to Alberta residents, the same number as had been purchased by the Government of Alberta. Initially, all shares were owned by Albertans, as the issue was oversubscribed during the Alberta priority period. Now, however, with trading taking place on the Alberta, Toronto, Montreal and Vancouver stock exchanges, investors in other parts of Canada have added AEC common stock to their investment portfolios. Approximately 13% of the shares are registered outside of the province, some of them representing Alberta nominees. Ninety-seven percent of our shareholders are Alberta residents.

No dividends have been declared since share issue. The dividend policy as set out in the Prospectus dated November 26, 1975, states that, "AEC has not paid dividends on the shares and does not expect to pay dividends in the early years of its operations as it expects to use all available funds to finance development and expansion."

The financial base of the Company is exceptionally strong. AEC was fortunate in the

timing of its sale of shares to the public since, in recent years, share sales have been extremely difficult for many other Canadian companies. Revenue from the share sale provided a solid beginning for the Company's investment program. Growing cash flow from investments will make it possible to safely borrow substantial additional capital for the opportunities that lie ahead.

Profits of Canadian Corporations

Whatever may be the case for AEC, the situation elsewhere in Canada is not good, and it seems appropriate at this time to offer special comment about Canadian corporations generally. Companies must have profit from their investments, or at least an acceptable level of profit potential. In recent years, profits have not been adequate for most Canadian companies and, instead of selling shares as an alternate to help finance new projects, they have been forced either to rely increasingly upon borrowed funds or to postpone their plans.

As with families or governments, excessive debt is far too often used as an expedient solution for long-range problems; one can only hope that public perception of profit requirements will develop and be reflected in government attitudes toward the financial requirements of Canadian corporations. Canadian companies must attain real after-tax, after-inflation profit, or the system that has created the jobs and standard of living to which Canadians have grown accustomed is in for even more difficult times.

Why should any investor buy a share of a company unless its value is going to increase or unless adequate dividend revenue will be received? And if treasury shares cannot be sold

at a fair price, how much longer can corporations continue to pile up debt obligations? If there are to be new plants — and the jobs that go with them — capital must be raised, at least in part, from profits and the ability to sell shares to investors.

Investment Program

AEC's investment program has been proceeding quite favorably. Full details of these endeavours are provided elsewhere in the Report, but a few special comments will be of interest.

With 216 wells drilled at Suffield at year-end, enough data is on hand to improve the original estimates of reserves and producibility. Basically, all results are somewhat better than expected. Higher producibility of shallow gas wells will reduce development costs, because fewer wells will have to be drilled. Shallow gas reserves are higher, at least in the areas developed to date, and it has been a pleasant surprise to frequently encounter gas in deeper drilling. The most distinguishing feature of Suffield results so far is not any large individual success, but rather the surprisingly high frequency of slightly better-than-expected results in all phases of the operation.

At year-end, Suffield's proved and probable reserves in the area where activity has taken place are up about 20%. Gas reserves for the total Block are approximately 8% above estimates of a year earlier. To date, only one-quarter of the total area has been under active development, so it is too early to assess the ultimate potential of the Block as a whole.

Little is being said yet about the heavy oil discoveries, as their profitability needs much more assessment.

The gas reserves now being developed are under contract for

sale within Alberta and in eastern Canada. Additional contracts will be needed within a year to accommodate the further reserves that are expected to be developed during 1977. In view of the apparent surplus of gas supplies in Alberta, new contracts are not assured. AEC has been informed by some buyers, however, that additional markets for Suffield reserves should materialize later this year.

The Syncrude complex is progressing on schedule. AEC's investment in the utilities plant and the pipeline should start yielding cash flow in 1978.

Special mention should be made of the Company's initial joint venture in forestry — a renewable resource. This is basically an opportunity to participate in the development of a large area of timber, in association with an experienced, well-regarded forestry company.

Negotiations are in progress for AEC's initial venture in the coal industry. At the time of printing this Report there is little more that can be added to previous public statements. The Company intends to participate in the coal business on a profitable basis and expects that its initial investment will be accomplished during the first half of 1977.

The Company's 50% ownership of Steel Alberta provides potential opportunity for investment in the steel industry. The nature and extent of that investment is not yet determined, as the senior staff in Steel Alberta are still very much at work assessing the possibilities. AEC believes that there will be investments with proper profit potential, but the decision must await adequate investigation of specific ventures.

AEC is one of four joint-venture participants who comprise the Petrochemicals Alberta Project (PETALTA) consortium. It is

anticipated that a decision soon will be made by the Energy Resources Conservation Board regarding PETALTA's application for an Industrial Development Permit to build a 1.1 billion pounds-per-year benzene plant. If the permit is granted, there is much work still to be done to obtain feedstock supplies and markets.

Outlook

1977 net income is expected to be substantially higher than in the previous year. Capital investment during the year is expected to be approximately \$200 million, of which \$89 million will be for AEC Power.

DAVID E. MITCHELL
President

Suffield Block





At Suffield the results were encouraging, both in development of the shallow gas reserves and exploration of deeper horizons, the latter being conducted by an oil company under a farmout agreement with AEC.

Shallow Gas Development

During 1976, AEC invested \$17.7 million developing its shallow reserves. This included the drilling of 198 wells, the construction of 184 miles of gathering system and the installation of 4 compressor units. New completion techniques enhanced productivity and resulted in greater average rates of production than had been predicted. By gaining early access to areas in the southern portion of Suffield, the Company was also able to develop a slightly larger portion of the Block earlier than had been expected.

A new engineering appraisal of the Suffield gas reserves has been made by engineering consultants. Based upon the favorable results of the shallow

drilling program to date, proved and probable reserves of marketable shallow gas in the entire Suffield Block are just over 1.9 trillion cubic feet, or 8% higher than was previously projected. Proved and probable reserves underlying only the areas where the Company is now actively drilling are approximately 20% greater than estimated in 1975.



*Nicholas J. Lashuk,
Vice President, Operations*

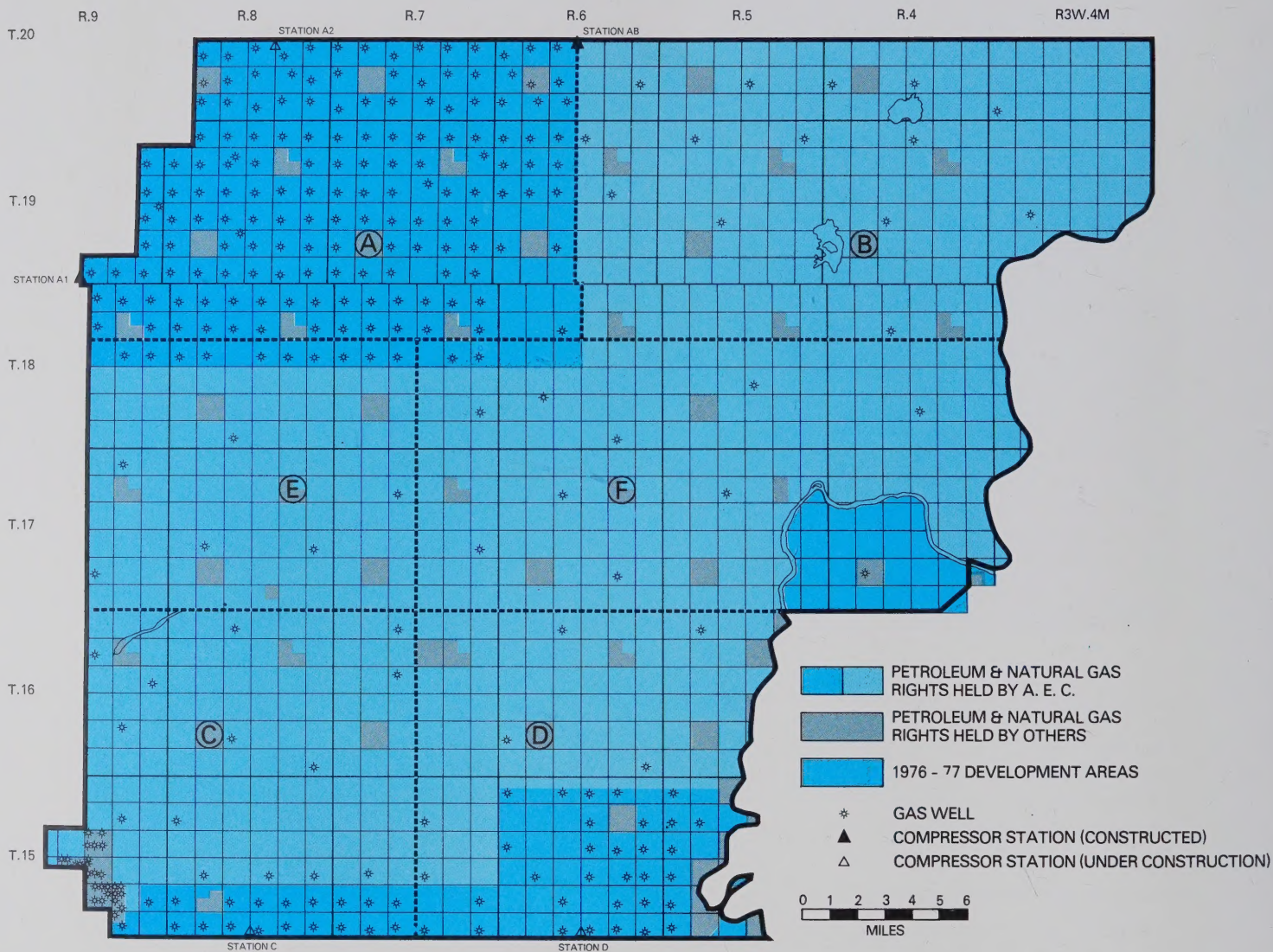
AEC received its first production revenue from gas sales in December. At year-end, produc-

Dehydrator to prepare gas for sale

tion was at 35 million cubic feet (35 mmcf) per day and by the spring of 1977 it is expected to reach 60 mmcf per day. Contracts have been signed for the sale of 70 mmcf of gas per day, for consumption in Alberta and eastern Canada. AEC's revenue from gas sales, after royalty, is expected to climb to a monthly rate of \$1 million in 1977.

During 1977, the Company plans to proceed with shallow gas development in four areas of the Block.

SUFFIELD BLOCK — SHALLOW GAS DEVELOPMENT PROGRAM



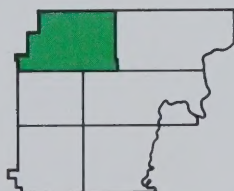
Suffield terrain

Exploration in Deeper Zones

During 1976, an oil company carried out an extensive seismic program, then drilled 18 exploration wells in the northwest portion of the Suffield Block. These wells were drilled at no cost to the Company. This drilling tested hydrocarbon potential in the deeper horizons (below about 2,200 feet). AEC has various options it may exercise, from an overriding royalty to a 70% working interest. The Company expects to retain the 70% interest in these wells and in the deeper petroleum and natural gas rights in the area now being explored. AEC will retain 100% interest in the shallow rights underlying the entire Block and in the deep rights outside the area now being explored.

The results of the program have been very encouraging, with 9 of the 18 wells encountering hydrocarbons, some finding heavy oil as well as natural gas in one or more zones. Further drilling and studies are required to determine the commercial value and extent of these deep gas and oil discoveries.

The economic importance of the heavy oil discoveries must be evaluated by further development. Surface access rights must also be negotiated before oil production can commence at Suffield.

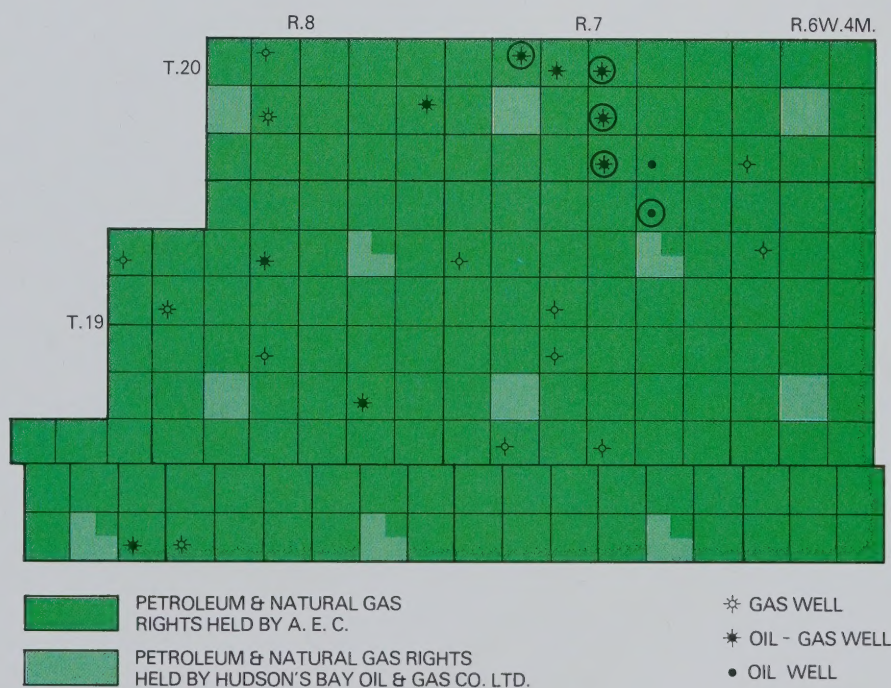


Well completion

During 1977, 8 more exploratory wells will be drilled to complete the 26-well program in the northwest portion of the Block being conducted under AEC's farmout agreement. Development wells will also be drilled to follow up the discoveries in this first area. Later in

1977, the Company expects to entertain proposals for exploration of the deeper horizons in Area B (in the northeast portion of Suffield) as well as the deep zones underlying that portion of Area F which is east of the South Saskatchewan River.

AREA "A" DEEP EXPLORATORY DRILLING



NOTE: CIRCLED WELLS DENOTE DEVELOPMENT WELLS

AEC Power Ltd.





Syncrude signing
Arnold Larsen,
now Senior Corporate Advisor
Arlene J. Moore,
Corporate Secretary

Syncrude Project

The Syncrude project, designed to produce 125,000 barrels per day of synthetic crude oil from the bituminous sands near Ft. McMurray, is presently on target for completion in 1978. After the Syncrude plant is fully operational, AEC has an option, but not an obligation, to acquire a participating interest of between 5% and

20% in the entire Syncrude project; the Company may exercise all or a portion of this option if the economics and profit potential of the project are attractive. If AEC elects to purchase an interest in the Syncrude project, it will pay a proportionate share of all construction and development costs.

In April, 1976, agreements were signed with the six Syncrude participants for ownership of: (1) the utilities plant which will provide electricity, steam and other utility services; and (2) the pipeline to transport the synthetic crude to Edmonton.

AEC Power Ltd.

Utilities plant construction is 56% complete, approximately on schedule. Total cost is estimated at \$300 million.

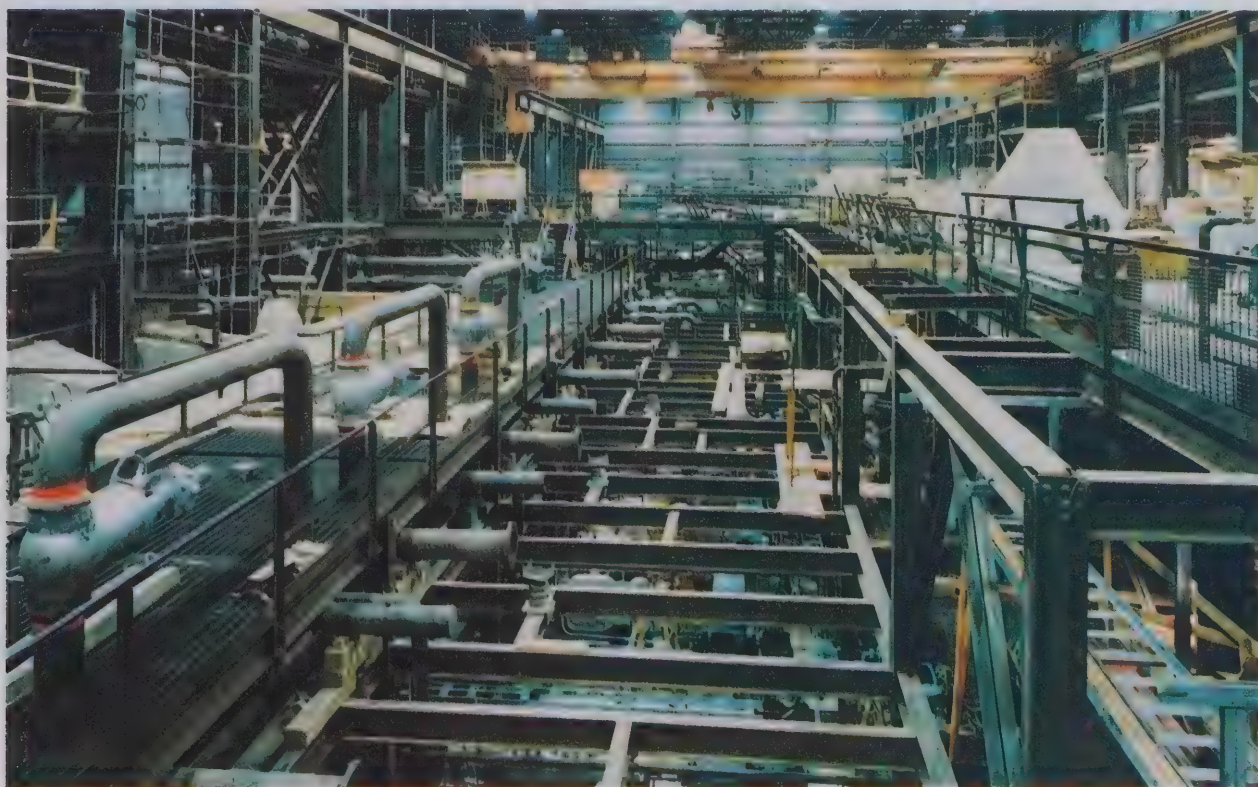
AEC Power Ltd., AEC's affiliate, owns this 260-megawatt utilities plant which will be the principal supplier of electrical energy and steam to the Syncrude project. During the year, agreements with respect to the

construction, financing and operating responsibilities were finalized by AEC Power and the Syncrude participants.

At mid-year, AEC Power Ltd. successfully sold to the Canadian public \$100 million of First Mortgage Bonds, the proceeds of which were used primarily to retire interim construction loans, with the balance going towards the funding of subsequent development.

By year-end 1976, AEC had advanced \$51 million to AEC Power Ltd. — \$35 million in the form of repayable advances and \$16 million in equity. AEC owns two-thirds of AEC Power and an Alberta utility company one-third.

Completion of the utilities plant should be accomplished by spring 1978. When constructed and fully operational, it will be capable of producing electric energy equivalent to 50% of the requirements of a city the size of Calgary or Edmonton.



Interior view of Syncrude utilities plant

Alberta Oil Sands Pipeline Ltd.



Pipe welding



Pipeline crew near the Syncrude site

Construction has commenced on the \$80 million oil pipeline from Ft. McMurray to Edmonton. The pipeline will transport synthetic crude oil which will be produced by the Syncrude project near Mildred Lake.

On April 30, 1976, Alberta Oil Sands Pipeline finalized and signed an important throughput agreement with the six Syncrude participants. Regulatory approval to construct and operate

the pipeline was received in late 1976. By year-end, construction had started on the 8-mile portion of the 20-inch pipeline which runs from the Syncrude processing plant to the south boundary of the oil sands lease area, where it will join with the 22-inch mainline extending some 270 miles southward to Edmonton.

The northern section of the main line through the muskeg area, which is 150 miles of the total length of the pipeline, is presently being constructed and the remainder will be built during the summer of 1977. In a special year-end report to shareholders dated January 31, 1977, there was detailed commentary on the pipeline contract awards.

By the end of 1977, all pipeline and pumping station construction is expected to be completed. AOSPL personnel will operate the pipeline from Company headquarters in Edmonton.

It is expected that the Company will be able to meet Syncrude's target for completion. AEC anticipates that it will receive cash flow from the Alberta Oil Sands Pipeline during 1978.



*Robert W. Hayes,
General Counsel*

Steel Alberta Ltd.

In 1976, Steel Alberta Ltd., a Calgary-based firm in which AEC holds a 50% interest, established a nucleus of senior people to assess and recommend attractive investment opportunities.

Steel Alberta's principal objective is to determine potential investments in the steel industry and to invest in only those which indicate acceptable profit potential. With a view to accomplishing this objective, a general overview of the industry was conducted during the year. Specifically, Steel Alberta completed a study of iron ore in Western Canada and completed the first phase of a comprehensive market study. The second phase of this study is now under way and will define market opportunity areas. This background information will be utilized to assist in the evaluation of several potential projects which the Company expects to consider in 1977.

IPSCO, in which AEC has a net 10% ownership through its interest in Steel Alberta, reported earnings of \$9,278,000 (\$2.00 per share) for the year ended August 31, 1976. The earnings of IPSCO were slightly more than one-half of those reported in 1975 and 1976, unusually good years, but represented an increase over all other previous years.

The recovery from the recent recession in steel demand has been slow in keeping with the Canadian economy. In particular, the market for large-diameter pipe has been affected by a reduction of oil and gas pipeline construction.



Pipe cutting

The outlook for both steel and tubular products for 1977 indicates that IPSCO's market within the present product range should remain relatively stable or increase marginally over the volumes recorded in 1976.



*Peter T. Sephton,
Executive Vice President and
General Manager,
Steel Alberta Ltd.*



*Machining operation in the
manufacturing of spiral pipe*



Reforestation



Grading lumber



Kiln-drying

Forestry

AEC has entered into a joint venture with Simpson Timber Co. (Alberta) Ltd. for the development of a forestry complex in the Whitecourt region of Alberta. The Company's investment in this complex and associated 1.4 million acres of wood resource is primarily with a view to other long-range investment possibilities in this industry.

AEC purchased a 40% interest in the assets of the first phase of the Whitecourt complex for \$9.6 million and will participate with Simpson in this initial phase and in the two subsequent phases of the complex. At year-end, AEC's total investment in the first phase, including the development of the wood resource, was \$11 million.

The joint venture has the right to harvest 95 million board feet of timber annually from 1,130,000 acres in the Whitecourt Forest, north of the Athabasca River and the town of Whitecourt. Timber quotas have also been acquired in the Fox Creek and Swan Hills areas and provide timber cutting rights for 34 million board feet annually. In total, the existing wood resources held by the joint venture has a potential of yielding 8 billion board feet of lumber.

The three-phase development will consist of a lumber manufacturing plant with a capacity of 100 million board feet per annum, a glued products plant and a wood fibre utilization plant. When the lumber manufacturing plant, located at Blue Ridge, reaches full

capacity in 1977, it will be the largest sawmill in Alberta and one of the most modern in North America with its annual operating output providing enough lumber to build 12,500 average homes.



*Kenneth R. King,
Vice President,
Business Development*

Coal and Other Activities

AEC expects to make a significant commitment in 1977 in the Western Canadian coal industry. Negotiations are currently in progress regarding a venture in a large Alberta development. Investment in the proposed project would be approximately \$23 million.

The Company has been actively pursuing the development of a major petrochemical project in Alberta, along with three other joint-venture partners. The Petrochemicals Alberta Project (PETALTA) proposes to build a 1.1 billion pounds-per-year benzene plant using pentanes-plus (a gas condensate) as its basic feedstock. Following a public hearing on its Industrial Development Permit Application last summer, PETALTA is awaiting the recommendations of the Energy Resources Conservation Board of Alberta. In the meantime, the petrochemical joint venture has carried out detailed marketing studies and is having discussions with potential customers for its proposed output of benzene and by-products.

AEC is involved in the natural gas marketing business by its 49.2% interest in Pan-Alberta Gas Ltd. This affiliate has sales contracts with Canadian gas utility firms which call for gas deliveries outside of Alberta until at least 1980.

Investment possibilities in other industries are being investigated, including transportation and petrochemicals-related facilities. In addition, the Company initiated last year a research and development program which evaluates high-technology projects as part of the on-going program of profitable investment.



*Dan G. Havlena
Manager, Evaluations*



Personnel



*Frank W. Proto
Manager, Administration*

A key ingredient in the Company's success is its ability to attract, develop and retain good personnel. By year-end the number of permanent employees was 95, compared to 43 at the end of 1975. The majority, but not all, have been recruited within Alberta and in fact are natives of Alberta. Office staff is located in Edmonton and Calgary, while Suffield personnel are largely based in Medicine Hat.

Through a Savings Plan, all AEC employees are provided with an opportunity to become shareholders in the Company, and over 95% of those eligible to join have chosen to do so.

The staff has worked hard and capably under very challenging conditions.

You Asked Us

Question: If my share certificate is lost or destroyed, what do I do?

Answer: It will be necessary for you to furnish, at your expense, an indemnity bond for its replacement. The Company's transfer agent, National Trust, handles these inquiries and will provide advice regarding necessary documentation. Shareholders are advised to keep their certificates in a safe place and to record certificate numbers.

Question: What is a proxy?

Answer: A proxy gives you the right to appoint a person to represent and vote for you at Company meetings. For example, you may send your proxy to the Annual Meeting if you personally are not able to be present. It is a common practice for shareholders to assign their voting right, or proxy as it is called, to the chief executive officer of a company, but anyone may be designated.

Question: Who is eligible to receive dividends?

Answer: All holders of common shares are entitled to dividends if and when declared by the Board of Directors. However, the dividend policy as set out in the prospectus dated November 26, 1975, states that, "AEC has not paid dividends on the shares and does not expect to pay dividends in the early years of its operation as it expects to use all available funds to finance development and expansion." No dividends have been declared since the share issue and the Directors have not amended the dividend policy set forth above.

Question: How many Government employees does the Company have?

Answer: None.

Question: How many persons holding elected political office are employed by AEC?

Answer: None.

Question: Are there any members of the Government on the Board of Directors?

Answer: No. All ten members of the Board are independent Canadian businessmen. The Alberta Government is nominating 3 people of the 10 persons on the Board.

Question: How do I determine the value of my shares?

Answer: The current market value of your shares is indicated on the stock list page of any major Canadian newspaper under the heading Alberta, Montreal, Toronto or Vancouver Exchanges. Here's an explanation of how to read it:

Advances outnumbered declines 740 to 444 on the Toronto Stock Exchange this week. Issues unchanged totalled 80.
Volume for the week was 7,267,959 shares down from the previous week's 9,071,137. Total for the year to date is 549,206,891. (Quotations in cents unless marked \$ and occasionally when traded in both cents and dollars).

A-B

Stock	Sales	High	Low	Close	Ch'ge	High	Low
Alt Energy	15301	\$12 ¹ / ₈	11 ⁷ / ₈	12	+ ¹ / ₄	12 ¹ / ₄	8 ¹ / ₂

1. STOCK is the abbreviated company name (in the example, Alt Energy).
2. SALES is the total number of company shares traded during the day (in the example, 15,301).
3. HIGH is the highest price at which shares traded during the day (in the example, \$12¹/₈).
4. LOW is the lowest price at which shares traded during the day (in the example, \$11⁷/₈).
5. CLOSE is the price for the last sale of the day (in the example, \$12).
6. CH'GE (CHANGE) is any difference in price from the previous closing, i.e., if the closing price on Tuesday was \$12, and the closing price on Wednesday was \$12¹/₄, the CH'GE on Wednesday would read + ¹/₄, as shown in the example.
7. Two other columns, HIGH and LOW, frequently appear in some tabulations in an end-of-week report. These show the high and low for the year to date (in the example, the high was \$12¹/₄ and the low was \$8¹/₂).

... This is how Company accounts might look if they were in a form similar to your bank book.

Date	Item	Withdrawal	Deposit	Balance
Jan. 1/76	Balance forward (working capital)			\$ 123,073,000.00
	Interest received on			
	money invested		10,454,000.00	
	Received from sale of			
	natural gas		618,000.00	
	Received from sale of lumber		678,000.00	
	Advance payment received		1,500,000.00	
	Paid out for operating costs	1,804,000.00		
	Paid out for general and			
	admin. expenses	1,843,000.00		
	Investment in AEC Power Ltd.	16,032,000.00		
	Paid out for development			
	costs of Suffield	17,702,000.00		
	Paid out for construction			
	costs of Alberta Oil			
	Sands Pipeline Ltd.	10,407,000.00		
	Paid for forestry assets	9,583,000.00		
	Invested in other assets	10,575,000.00		
Dec. 31/76	Balance at year-end (working capital)			\$ 68,377,000.00

Financial Review

Net income for 1976, after provision for current and deferred income taxes, was \$8,460,000 or 56c per share. The net income for 1975, when the Company was not fully taxable until late in the year, was \$3,981,000. If AEC had been subject to income taxes for the full 1975 year, net income would have been \$2,196,000 or 29c per share. The major source of income in 1976 was interest earned from investment in short-term securities. The average yield during 1976 on these investment securities was $9\frac{1}{2}\%$.

AEC invested \$17,702,000 in the development of the Suffield Block in 1976. This resulted in the first gas wells being connected to markets, and produced the Company's first revenues from the sale of gas late in the year.

Construction commenced in 1976 on the Alberta Oil Sands Pipeline. By year-end a total of \$17,550,000 had been expended against the total estimated cost of this facility of \$80 million. Present plans are to have AEC provide 20% of the required capital as its equity investment. A debt issue of Alberta Oil Sands Pipeline Ltd. to cover the remaining 80% of current capital requirements will be considered during 1977. The pipeline tariff will cover all operating and maintenance costs, including interest on the pipeline debt, and will yield a return on AEC's equity. This return on equity will be 15% during the construction phase. The rate during the first 5 years after start-up will be determined by negotiation or arbitration and will be between 15% and 22%. The actual rate is subject to certain adjustments based upon throughput.

In the latter half of the year, AEC made its first investment in the forestry industry. The finan-

cial statements reflect a total expenditure of \$10,920,000 in the year in acquiring a 40% share of the forestry properties of Simpson Timber Co. (Alberta) Ltd. under a joint-venture arrangement.

Since inception, the total investment of AEC in properties and in affiliated companies has been \$125 million. Of this total, approximately one-half was invested during 1976 so that the Company's net income for 1976 reflects only a small portion of revenues that can be expected from these sources in future years.

AEC holds 50% of the voting shares and all of the non-voting shares of AEC Power Ltd., representing in total two-thirds of the outstanding common shares. The Company's equity investment and its proportionate share of AEC Power earnings are reflected in the consolidated financial statements.

Initial equity invested in AEC Power was \$24 million, of which \$16 million was provided by AEC and \$8 million by an Alberta utility company.

At mid-year, AEC Power raised its first debt capital, \$100 million of First Mortgage Sinking Fund Bonds. The proceeds of this issue, together with the equity capital investment and \$35 million in the form of repayable advances from AEC, has provided the funds for construction of the utilities plant. At year-end the utilities plant was 56% complete, and construction expenditures to that date were \$167,814,000.

Consideration is presently being given to an additional bond issue, the proceeds of which will be used to repay the AEC advances and to finance a large portion of 1977 construction costs.

By the time the utilities plant is completed early in 1978, equity capital, including an



*Jack G. Armstrong,
Vice President, Finance*

allowance for a return on the equity during the construction period, is estimated to amount to approximately \$30 million of the total estimated costs of \$300 million. AEC Power's utilities plant agreement with the Syncrude participants provides for a 15% rate of return on equity capital during the construction period and a negotiated rate of return thereafter of not less than 13% nor more than 22%.

Consolidated Balance Sheet

	December 31	
	1976	1975
	(in thousands)	
CURRENT ASSETS		
Cash and short-term investments.....	\$ 87,154	\$128,086
Accounts receivable.....	1,752	
Inventories (Note 1).....	916	
Prepaid and deferred expenses.....	644	240
	90,466	128,326
INVESTMENT IN AFFILIATED COMPANIES (Note 2).....	25,570	6,856
PROPERTY, PLANT AND EQUIPMENT (Note 3).....	99,299	60,212
OTHER ASSETS (Note 4).....	1,084	594
	<u>\$216,419</u>	<u>\$195,988</u>
CURRENT LIABILITIES		
Accounts payable.....	\$ 12,089	\$ 5,151
Income taxes.....		102
Current portion of acquisition cost of Suffield Block rights.....	10,000	
	22,089	5,253
DEFERRED REVENUE (Note 3).....	1,500	
DEFERRED BALANCE OF ACQUISITION COST OF SUFFIELD BLOCK RIGHTS (Note 3).....	30,000	40,000
DEFERRED INCOME TAXES.....	3,555	
SHAREHOLDERS' EQUITY		
Share capital (Note 4)		
Authorized — 100,000,000 shares without par value		
Issued and fully paid — 15,068,976		
(1975 — 15,062,064).....	147,076	146,996
Retained earnings.....	12,199	3,739
	159,275	150,735
	<u>\$216,419</u>	<u>\$195,988</u>

Approved by the Board:

D. Mitchell Director

M. E. Lomas Director

Consolidated Statement of Retained Earnings

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Consolidated Statement of Changes in Financial Position

	Year Ended December 31	
	1976	1975
	(in thousands)	
SOURCE OF FUNDS:		
Funds derived from operations —		
Net income.....	\$ 8,460	\$ 3,981
Items not involving funds —		
Equity in earnings of affiliates.....	(2,682)	(285)
Allowance on equity funds.....	(1,602)	
Deferred income taxes.....	3,555	
Depreciation, depletion and amortization.....	532	22
	8,263	3,718
Deferred income.....	1,500	
Net proceeds on issue of share capital.....	80	146,995
Deferred balance of acquisition cost of Suffield Block rights.....		40,000
	9,843	190,713
APPLICATION OF FUNDS:		
Additions to property, plant and equipment (Note 3).....	39,619	59,722
Allowance on equity funds, Alberta Oil Sands Pipeline.....	(1,602)	
	38,017	59,722
Investment in affiliated companies (Note 2).....	16,032	5,670
Additions to other assets.....	490	583
Current portion of acquisition cost of Suffield Block rights.....	10,000	
	64,539	65,975
INCREASE (DECREASE) IN WORKING CAPITAL.....	(54,696)	124,738
WORKING CAPITAL — BEGINNING OF YEAR.....	123,073	(1,665)
WORKING CAPITAL — END OF YEAR.....	\$ 68,377	\$123,073

Auditors' Report

To the Shareholders of
Alberta Energy Company Ltd. :

We have examined the consolidated balance sheet of Alberta Energy Company Ltd. as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Alberta Energy Company Ltd., its subsidiaries and the affiliate of which we are auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of other auditors who have examined the financial statements of the other affiliates and the joint venture.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants
Edmonton, Alberta
January 31, 1977

Notes to Consolidated Financial Statements

December 31, 1976

1. Accounting policies

(a) Investments in other entities

Subsidiaries —

The accounts of Alberta Energy Company Ltd. ("AEC") are consolidated with those of other companies in which AEC owns more than 50% of the voting shares. These consolidated financial statements include the accounts of Alberta Oil Sands Pipeline Ltd. ("AOSPL") and Alberta Industrial Gas Suppliers, Ltd., both of which are wholly-owned subsidiaries.

Affiliates —

Where AEC owns 50% or less of the voting shares of another corporation, but is still in a position of exerting significant influence in the decisions made by such investees, AEC has adopted the equity method of accounting for such investments. Under this method AEC's proportionate share of the affiliates' income or loss is included in income and the investment is carried at cost plus equity in undistributed income since acquisition.

Unincorporated joint venture —

Where AEC owns fixed assets utilized in an unincorporated joint venture it records such assets in its accounts. In addition to such assets, AEC records on a line-by-line basis its proportionate share of other assets, liabilities, and revenues and expenses associated with its participation in the operations of a joint venture.

(b) Fixed assets

AEC employs the following general principles relating to fixed assets:

- All fixed assets are carried at cost.
- Depreciation on these assets is provided over their estimated useful lives.
- When fixed assets are retired or sold, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss is reflected in income.
- Expenditures for repairs and maintenance are charged to expense as incurred.

The following specific principles pertaining to particular industries have been adopted:

— Petroleum and Natural Gas

AEC employs the full cost method of accounting for petroleum and natural gas properties and capitalizes all costs related thereto. Petroleum and natural gas leases are situated in the Suffield Block and are being developed on an area basis. Costs associated with producing areas are amortized using the unit of production method based on estimated proven reserves. Costs associated with non-producing areas are accumulated until production is commenced.

— Forestry

The cost of acquiring timber harvesting rights is depleted on the basis of timber cut and removed as it relates to the volume of timber estimated to be recoverable.

— Pipeline

Allowances for return on equity and borrowed funds employed during construction are included in the capitalized cost of the pipeline.

(c) Deferred costs

Costs incurred in investigating projects are deferred pending investment decisions. Costs of project investigations which result in investments are included in the cost of such investments. When it is determined that investments will not result, costs related to these investigations are charged against income.

(d) Income taxes

Income taxes are based on accounting income which differs in some respects from taxable income. Differences generally arise because certain items of income and expense are reflected in different time periods for financial accounting purposes than for tax purposes. Deferred income taxes represent the amount by which taxes on accounting income exceed taxes paid or payable on taxable income.

(e) Inventories

In these financial statements the only inventory items are forest products, which are valued at the lower of cost and estimated net realizable value.

2. Investment in affiliated companies

The investment in affiliated companies is comprised of:

	1976			1975	
	AEC Power Ltd.	Steel Alberta Ltd.	Pan- Alberta Gas Ltd.	Total	Total
Common shares	\$16,032,200	\$ 10,000	\$ 6,400	\$16,048,600	\$ 16,400
Advances — unsecured		5,659,515	900,000	6,559,515	6,559,515
Equity in undistributed income since acquisition. . .	1,648,360	1,130,656	183,238	2,962,254	279,727
	<u>\$17,680,560</u>	<u>\$6,800,171</u>	<u>\$1,089,638</u>	<u>\$25,570,369</u>	<u>\$6,855,642</u>

(a) AEC Power Ltd. ("AEC")

AEC acquired 50% (80,000) of the issued Class A (voting) shares and 100% (80,000) of the Class B (non-voting) shares of AEC on April 28, 1976. The balance (80,000) of the issued Class A shares is held by a utility company.

The utilities plant presently under construction by AEC was estimated to be 56% complete at December 31, 1976. Total estimated cost of the utilities plant is \$300,000,000 with completion scheduled for March, 1978.

The allowed return on equity funds invested in AEC during the construction phase and the initial five-year operating period has yet to be agreed. This return, however, shall not be less than 13% nor greater than 22% per annum and pending determination a provisional 15% rate is allowed. AEC's share of the return on equity based on the provisional rate has been included in income under the caption "Equity in Earnings of Affiliates".

The participants in the Syncrude project have provided guarantees for a return of all debt and equity capital of AEC (including equity allowances earned to that date) if the project is abandoned prior to completion of construction, and the Province of Alberta has provided a guarantee for a return of all debt capital in the event of abandonment after completion.

By a loan agreement dated June 4, 1976, AEC agreed to lend AEC up to \$150,000,000. The agreement provides that AEC will issue additional First Mortgage Bonds to be pledged with and held by AEC as collateral security. Repayment of the loan may be made at any time and AEC has agreed that, unless AEC is in

default under the agreement, it will not demand repayment unless alternate funds are available to AEC. As at December 31, 1976, \$35,000,000 had been advanced by AEC under this agreement and, as alternate funds are available, has been included under "Cash and short-term investments".

(b) Steel Alberta Ltd.

AEC holds 50% of the issued common shares of Steel Alberta. Steel Alberta's principal asset is 938,400 common shares (20.1%) of Interprovincial Steel and Pipe Corporation Ltd. ("IPSCO") which investment is accounted for by Steel Alberta on the equity method.

(c) Pan-Alberta Gas Ltd.

AEC holds a 49.2% equity interest in Pan-Alberta Gas, comprising 40% of the Class A (voting) and 50% of the Class B (non-voting) common shares.

AEC is committed to loan Pan-Alberta Gas up to \$2,000,000 towards that company's operating costs. To December 31, 1976, \$900,000 had been advanced under this commitment. The advances are repayable on demand and bear interest at a floating rate, which was 10³/₈% at December 31, 1976.

3. Property, plant and equipment

Property, plant and equipment consists of the following:

	1976			1975
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Net
Producing Properties				
Petroleum and Natural Gas Properties (Suffield Block)				
Lease rights	\$ 7,101,270	\$ 22,014	\$ 7,079,256	
Intangible development	7,773,268	64,975	7,708,293	
Equipment	7,306,035	59,082	7,246,953	
	<u>22,180,573</u>	<u>146,071</u>	<u>22,034,502</u>	
Forestry Properties				
Plant and equipment	6,994,069	260,203	6,733,866	
Timber harvesting rights	898,454		898,454	
	<u>7,892,523</u>	<u>260,203</u>	<u>7,632,320</u>	
Properties Under Development				
Suffield Block	49,800,208		49,800,208	\$54,278,930
Alberta Oil Sands Pipeline	17,550,521		17,550,521	5,541,040
Forestry	1,690,778		1,690,778	
	<u>69,041,507</u>		<u>69,041,507</u>	<u>59,819,970</u>
Other Property, Plant and Equipment	<u>738,071</u>	<u>147,868</u>	<u>590,203</u>	<u>391,586</u>
Total	<u>\$99,852,674</u>	<u>\$554,142</u>	<u>\$99,298,532</u>	<u>\$60,211,556</u>

Suffield Block

AEC acquired the majority of its petroleum and natural gas rights to the Suffield Block from the Province of Alberta for \$54,000,000 plus, in certain events, other amounts dependent upon the value of production. Of the \$54,000,000, \$14,000,000 was paid on November 7, 1975, \$10,000,000 is payable March 23, 1977, and the balance is payable in annual instalments of \$10,000,000 each, beginning one year after recovery by AEC out of its share of production (net of royalties) of an amount equal to all the costs and expenses of the Suffield Block. If, in any year after the above payments have been made and have been recovered by AEC out of its share of net production, one-half of the net production proceeds from the leased rights exceeds the royalties paid or payable to Alberta, AEC will pay such excess to Alberta. Production of gas from the Suffield Block commenced on November 1, 1976.

AEC has received a \$1,500,000 advance production payment which is recoverable from AEC's share of first production revenues from the deep horizons in Area A of the Suffield Block.

Forestry properties

In 1976, AEC purchased forestry properties and entered into a joint-venture agreement and a related sales agreement, all with effect from June 28, 1976. These agreements are subject to the approval of certain governmental agencies, as well as compliance with certain conditions. It is AEC's opinion that such approvals and conditions will be obtained and met; however, if the approvals and conditions are not obtained and met then all properties and assets acquired by AEC under the agreements would revert to the vendor and AEC would be repaid all payments made by it under the agreements excepting \$250,000.

Under the terms of the joint-venture agreement AEC assumed a 40% share of capital expenditure commitments previously made by the vendor. AEC's commitment in this regard is estimated at \$8,200,000, \$2,000,000 of which is to be expended in 1977.

The operation by the joint venture of a new lumber manufacturing facility commenced in early July, 1976.

Alberta Oil Sands Pipeline

In 1976 Alberta Oil Sands Pipeline Ltd. ("AOSPL") and the Syncrude participants agreed that AOSPL would construct and operate a pipeline from Mildred Lake to Edmonton which is estimated to cost \$80,000,000. During the construction phase a return of 15% on equity funds is allowed, which equity funds are projected not to exceed 20% of the total cost of the pipeline. This return on equity cannot be paid out by AOSPL before 1998 unless the Syncrude project is abandoned.

During the period commencing on May 1, 1978, or, if the pipeline is not completed by May 1, 1978 and the delay in completion was not caused by the Syncrude participants, commencing in the month following completion and continuing until May 1, 1983, AOSPL will receive a tariff which is based on cost of service

and which will provide it with a rate of return on equity, to be agreed upon by the parties or determined by arbitration, of from 15% to 22% per annum, which tariff is subject to certain adjustments based on throughput.

If, prior to completion of the Syncrude project, the Syncrude participants request AOSPL to abandon the pipeline, the Syncrude participants will, unless AOSPL elects to retain the pipeline without further payment from the Syncrude participants, either reimburse AOSPL for all costs and expenses of the pipeline or purchase the pipeline by paying AOSPL the total equity investment in the pipeline and assuming all AOSPL's liabilities and commitments relating to the pipeline. If at any time after its completion, the Syncrude project is abandoned, the participants will pay any tariffs then due and shall guarantee the remaining outstanding debt of AOSPL relating to the pipeline.

4. Share capital

- (a) Changes in outstanding shares were as follows:

	1976		1975	
	Number of shares	Net proceeds	Number of shares	Net proceeds
Issued for cash	12,000	\$ 128,880	15,061,964	\$146,995,426
Redeemed for cancellation	5,088	48,743		
Net change in the year	6,912	80,137	15,061,964	146,995,426
Share capital — beginning of year	15,062,064	146,995,526	100	100
Share capital — end of year	15,068,976	\$147,075,663	15,062,064	\$146,995,526

- (b) 1,036 shares are reserved for a Share Purchase Plan established for officers and employees. Other assets include loans of \$657,504 to officers and employees under Share Purchase Plans (1975 — \$593,615).

5. Supplementary information to statement of income

- (a) Net operating revenue includes the following:

	1976		
	Natural Gas	Forestry	Total
Gross operating revenue (net of royalties)	\$618,029	\$678,466	\$1,296,495
Depreciation, depletion and amortization	146,071	260,203	406,274

- (b) Other depreciation and amortization totalled \$125,901 (1975 — \$21,967)

6. Earnings per share

Earnings per share, based on the weighted average number of shares outstanding during the year, amounted to 56c (1975 — 52c). Had AEC been subject to income tax throughout the 1975 year, the earnings per share would have been 29c.

7. Remuneration of directors and senior officers

The aggregate direct remuneration paid by AEC and its subsidiaries to its directors as directors was \$49,000 (1975 — \$56,000) and to its senior officers as officers \$314,098 (1975 — \$240,288).

8. Comparative figures

The 1975 figures have been restated to conform to present financial statement categories.

Board of Directors

DAVID E. MITCHELL
President and Chief Executive Officer,
Alberta Energy Company Ltd.,
Calgary, Alberta



MATHEW M. BALDWIN
Company Director,
Edmonton, Alberta

EDWARD A. GALVIN
Vice Chairman,
Norcen Energy Resources Limited,
Calgary, Alberta



M. EARL LOMAS, Q.C.
Partner, Macleod Dixon,
Barristers and Solicitors,
Calgary, Alberta

PETER L. P. MACDONNELL, Q.C.
Partner, Milner & Steer,
Barristers and Solicitors,
Edmonton, Alberta



JOHN E. MAYBIN
Chairman of the Board,
Canadian Utilities Limited,
Toronto, Ontario

STANLEY A. MILNER
President,
Chieftain Development Co. Ltd.,
Edmonton, Alberta



RAYMOND J. NELSON
President,
Nelson Lumber Company Ltd.,
Lloydminster, Alberta

GORDON H. SISSONS
President, I-XL Industries Ltd.,
Medicine Hat, Alberta



J. HARRY TIMS
President and General Manager,
McTavish McKay & Company Limited,
Calgary, Alberta

Officers

DAVID E. MITCHELL
President and Chief Executive Officer

JACK G. ARMSTRONG
Vice President, Finance

KENNETH R. KING
Vice President, Business Development

NICHOLAS J. LASHUK
Vice President, Operations

General Counsel

ROBERT W. HAYES

Managers

WILLIAM L. ANDERSON
Manager, Special Projects

ROGER D. DUNN
Manager, Coal

JACK E. ELLEFSON
Manager, AOSPL

DAN G. HAVLENA
Manager, Evaluations

RAYMOND D. CALLIES
Treasurer

ARLENE J. MOORE
Corporate Secretary

M. EARL LOMAS, Q. C.
Assistant Secretary

Administration and Personnel

FRANK W. PROTO

HECTOR J. McFADYEN
Manager, Economics

GWYN MORGAN
Manager, Suffield

ROBERT W. RUFF
Manager, Accounting

JOHN D. WATSON
Manager, Treasury Operations

Corporate Information

HEAD OFFICE #1100, 10621 - 100 Avenue Edmonton, Alberta T5J 0B3	CALGARY OFFICE #1000, 540 - 5th Avenue S. W. Calgary, Alberta T2P 0M2
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REGISTRAR
National Trust Company,
Limited
Edmonton, Alberta

TRANSFER AGENTS
National Trust Company,
Limited
Edmonton, Calgary, Vancouver,
Winnipeg, Toronto, Montreal;
and its agent,
Canada Permanent Trust
Company in Regina

STOCK EXCHANGE LISTINGS
Alberta Stock Exchange
Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange

AUDITORS
Price Waterhouse & Co.
Chartered Accountants
2401 Toronto-Dominion Tower
Edmonton Centre
Edmonton, Alberta T5J 2Z1

About the Company

The Alberta Energy Company is an Alberta corporation, owned one-half by the Alberta Government and one-half by more than 50,000 Canadian shareholders. 1976 was its second fully-operational year. The Company was established to provide Albertans with a special opportunity to participate in Alberta's development.

The Alberta Government participates in ownership of the Company, but not in its management. AEC does not employ, nor have as a Director, any elected member of government or any member of the civil service.

Taxes are payable by the Company at the same rates as other Canadian companies. AEC was not fully taxable until late 1975 when, upon sale of shares to the general public, it ceased to be a Crown Corporation.

Objectives of the Energy Company are: operating at a

profit and in the best interests of all shareholders; encouraging and enabling Albertans and other Canadians to participate in the development of Alberta's industrial and resource potential; and stimulating, advancing and strengthening industrial and resource bases of the Canadian economy.

As well as investing in industrial and energy-related projects, the Company has given consideration to other profitable enterprises. The Company has stated that it does not intend to engage in conventional oil and gas exploration in Alberta.

AEC's investment policies continue to emphasize new, large, long-range, capital-intensive projects, but will not exclude investment in smaller projects or acquiring interests in existing enterprises. Priority has been given to projects within Alberta, but investments elsewhere, particularly if related to Alberta, will also be given consideration.

The form of AEC participation in projects will depend on the circumstances surrounding each investment. In addition to undertaking projects on its own or through subsidiaries, AEC is participating in projects with others through affiliated companies or joint ventures. The Company's preference is to participate directly in projects in a way that permits the cash flow of the project to be received directly by AEC, rather than holding a minority share interest in other companies. When participating in projects with others, AEC will have a role in the formulation of policies for the project.

The object of the Company is to establish a large, profitable, Alberta-based, Alberta-controlled corporation that has significant participation in the Province's future; the results to date provide a good start in the long-range program to accomplish this objective.

Alberta Energy Company Ltd.
1976 ANNUAL REPORT

PRINCIPAL PROJECTS AND INVESTMENTS

Suffield Block

Drilling operations to develop the shallow gas reserves of the Suffield Block are progressing at a good rate, with indicated productivity to date slightly better than anticipated. At June 30th, 55 successful gas wells had been drilled, each containing varying quantities of gas in from one to three horizons — the Milk River, Medicine Hat and Second White Specks.

Agreement has been reached recently with the military to accelerate development of another portion of the Block, granting AEC immediate access to an additional 32,000 acres. The Company expects to drill 225 shallow gas wells in the Suffield Block by year-end.

Gas sales from the area are expected to commence in 1977, marking the beginning of AEC's production revenue.

Along with the shallow gas development, an exploration program for oil and gas has commenced in the deeper horizons of the Suffield Block. This exploration, which is being conducted under farmout arrangements with an oil company, has also yielded encouraging results.

Of the six exploratory wells drilled to mid-year, one encountered gas and three, both oil and gas. The gas zones appear to be commercial, and production tests will be conducted to determine the commercial nature of the oil.

Syncrude Project

On April 30th, AEC signed agreements with the Syncrude participants for the ownership and operation of the Utilities Plant that will provide power, steam and other utility services to the Syncrude Project and to construct a pipeline to carry the synthetic crude to Edmonton.

AR05

Alberta Oil Sands Pipeline Ltd.

The estimated cost of the 270-mile pipeline is \$80 million of which \$6,415,000 had been expended to June 30, 1976, for line pipe, engineering and right-of-way acquisition. Applications have been filed with the appropriate regulatory bodies for permits to construct and operate the line, and a public hearing was held in May. Later this year, physical construction of the pipeline will commence, with completion expected in early 1978.

AEC Power Ltd.

Agreements with respect to the construction, financing and operating responsibilities of the Utilities Plant were finalized by AEC Power with the six Syncrude Project participants. AEC Power will be the principal supplier of electrical energy and steam to the Syncrude Project and revenue will be received from the Syncrude participants on a cost-of-service basis. Completion of the Plant should be accomplished by early 1978.

Alberta Energy Company Ltd. owns two-thirds of AEC Power Ltd. and Calgary Power Ltd. owns one-third. In May, Alberta Energy Company and Calgary Power made their initial equity investments in the Company of \$16 million and \$8 million respectively.

Recently, AEC Power sold to the Canadian public, through a group of Canadian underwriters, \$100 million of 10-3/4% First Mortgage Bonds.

Other Projects

The Company is actively investigating or developing other investment opportunities, particularly in benzene production, coal development and forestry.

June 30, 1976

D. E. Mitchell

ALBERTA ENERGY COMPANY LTD.

... an Alberta-based Company owned by more than 50,000 Canadian Shareholders.

Alberta Energy Company Ltd.

INTERIM REPORT

For 6 Months Ended June 30, 1976

#1100 10621 - 100 Avenue Edmonton Alberta T5J 0B3
#1000 540 - 5th Ave. S.W. Calgary Alberta T2P 0M3



REPORT TO SHAREHOLDERS

HIGHLIGHTS

- Six-month net income after taxes was \$3,452,000 or 23 cents per share, compared to an equivalent 15 cents per share in 1975.
- Results of Suffield shallow-gas development better than expected.
- Oil and gas found in exploration program at Suffield.
- Agreements signed with Syncrude participants for pipeline and utilities plant.
- Investment possibilities actively being pursued, particularly benzene production, coal development and forestry.
- Successful sale of \$100 million AEC Power Ltd. bonds in Canada.

FINANCIAL REVIEW

Earnings in the first six months of 1976 were up substantially as compared to the same period in 1975. After provision for deferred income taxes, net income was \$3,452,000, or 23 cents per share.

Income before taxes in 1976 was \$5,444,000 or 36 cents per share, compared to \$1,942,000 or 28 cents per share for the same period in 1975. In the first six months of 1975, income was not subject to taxation, as the Company was then a Crown Corporation.

The cash position at mid-year was \$108,624,000.

ALBERTA ENERGY COMPANY LTD. CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	Six Months Ended 1976 June 30	1975
Income from short-term securities	\$5,534,000	\$2,462,000
General and administrative expenses	1,296,000	458,000
Income before taxes and other income	4,238,000	2,004,000
Other income:		
Equity in earnings of affiliates	742,000	(62,000)
Earning on equity funds, Alberta Oil Sands Pipeline	464,000	—
Income before income taxes	\$5,444,000	\$1,942,000
Deferred income taxes	1,992,000	Note 1
Net income	<u>\$3,452,000</u>	
Earnings per share	<u>23¢</u>	

Note 1 Effective December 8, 1975, when shares were sold to the public, the Company ceased to be a Crown Corporation and commenced payment of taxes. The Company was not subject to income tax for the comparative six-month period ended June 30, 1975. If it had been, the net income after taxes would have been \$1,020,000 or 15 cents per share, on the lesser number of average shares outstanding during that period.

CONSOLIDATED STATEMENT OF CHANGES IN CASH POSITION (Unaudited)

	Six Months Ended 1976 June 30	1975
Cash Inflows:		
Income before taxes and other income	\$ 4,238,000	\$ 2,004,000
Depreciation	38,000	5,000
From operations	4,276,000	2,009,000
Shares issued	—	75,000,000
Advances against future production	1,500,000	—
Cash Outflows:		
Investment in affiliate — AEC Power Ltd.	5,776,000	77,009,000
Plant, property and equipment additions	16,000,000	—
— Suffield gas development	2,015,000	111,000
— Alberta Oil Sands Pipeline	6,415,000	369,000
— Other plant, property and equipment	139,000	169,000
Other	669,000	45,000
	<u>25,238,000</u>	<u>694,000</u>
Change during the period	\$ (19,462,000)	\$76,315,000
Cash Position — Beginning of Period	\$ 128,086,000	\$ (1,455,000)
Cash Position — End of Period	<u>\$ 108,624,000</u>	<u>\$74,860,000</u>

Cash is defined as cash and cash equivalent, which includes short term investments.